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Private Sector Support Programme To Support Palestinian Small And Medium Enterprises (SMEs)

Euro 25 million Italian Government Soft Loan

Application Guidelines

1. Background

The Italian Ministry of Foreign Affairs on behalf of the Republic of Italy and the Palestinian Liberal Organization for the Benefit of the Palestinian National Authority represented by the Ministry of Finance (MoF) has signed an agreement on 22 July 2004 entitled "Private Sector Development Programme to Support Small and Medium Enterprises (SMEs) through the Palestinian Banking System" in the value of Euro 25 million soft loan.

A Financial Agreement was signed on May 5, 2005 between the Palestinian Ministry of Finance and the Artigiancassa S.p.A., which is the financial institution in charge of administering, on behalf of the Ministry of Economics and Finance (MOEF) of the Republic of Italy, the Revolving Fund for Development Cooperation, and has been entrusted by the MOEF of the Republic of Italy with full power to administer the above mentioned Financial Agreement.

Ministry of Finance signed Framework On-lending Agreement on June 3 2010 with four eligible Palestine Private Banks to operate this credit line in accordance to agreements with the Italian Government. The on-lending agreements between Ministry of Finance and banks became effective on October 2010 after fulfilling all related administrative and legal matters, most importantly the endorsement decision of The Palestinian Council of Ministers.

2. Program Overall Objective

The Italian Credit Line aims to providing soft loans for Palestinian small and medium enterprises to finance purchasing equipment and services of Italian origin to develop their current production



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lines or to introduce new production lines within the sectors of industry and the food processing and agricultural industry, and related services to those sectors.

The total aggregate price of the Supply Contracts, for which a Loan is requested, must be relevant to goods and services of Italian origin for a quota not lower than 70% (seventy per cent). The remaining 30% (thirty per cent) of the total aggregate price of the Supply Contracts can be related to the supply of goods and services (or construction work) of local origin (from Palestine or neighboring Countries). The quota of 30% that is not tied to supplies of Italian origin should be included in the contracts established with Italian Suppliers.

The Supply Contracts must not include: (i) goods and services related, directly or indirectly to military activities, (ii) luxury items and, (iii) goods that are not in conformity to the international rules on environmental protection and on workers' safety, (iv) settlements' products and services.

3. Sector Allocation

Loans will be made to the following Palestinian economic sectors:

- Group I: manufacturing industry.
- Group II: agriculture and agro-industry.
- Group III: related services.

4. Overall Program Management:

Ministry of Finance established the Credit Line Steering Committee (CLSC) which will be responsible for the overall management of the Programme and for the final finance decision of SMEs projects. The CLSC will conduct its operations to the highest standards of impartiality and confidentiality. Its decisions will be carried out by the Project Management Unit (PMU), located at the International Relations and Project Directorate of Ministry of Finance according to the agreement signed with the Italian Government. The PMU will be responsible for the follow up with all the parties of this program.

CLSC is composed of senior representatives of following institutions:

- Ministry of Finance (Head of CLSC).
- Ministry of National Economy (Member).
- Palestinian Monetary Authority (Member).



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- Palestinian Federation of Chambers of Commerce, Industry and Agriculture (Member).
- Palestinian Federation of Industries (Member).
- Italian General Consulate - Jerusalem (Observer).
- Italian Cooperation Office - Jerusalem (Observer).

5. Loans Terms And Conditions:

Loan Amount:	<i>Minimum Euro 50,000 – Maximum Euro 500,000</i>
Declining Annual Interest Rate:	5% Maximum
Commission (to be charged once):	0.5%
Grace Period:	1 year
Repayment of principal:	<i>Maximum 5 years</i>
Instalments:	Biannual

Notes:

All the loans will be denominated in €.

The indications on the table are established according to actual monetary market.

This terms and conditions are set to assure limited distortion in the market.

The amount of credit approved in any single case shall be directly related to supplier contracts entered into with Italian suppliers, as reflected in the Business Plan and forecasts, and fall within the limits of the loan amount above.

All credits should be subject to personal guarantee, if possible, and backed by other collateral, where available, e.g. mortgages on land and buildings.

It is not anticipated that there will be any variance to the terms and conditions of the loans and sub-loans, unless there is a significant change in market conditions which would suggest a change would be needed. Any such changes would be decided by the Credit Line Steering Committee and communicated to the PPBs.



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6. Application Procedure and Assessment:

Palestinian Small and Medium enterprises (SMEs) can benefit from this Italian Credit Line Program through participating banks once all related eligibility criteria and conditions are met. Each project application will be processed by banks internally and must be approved by the bank within its internal limits of authority. Only the banks, being responsible for the commercial risk, will take the initial decision to finance an SME project.

The Palestinian Private Banks sub-loans to SMEs will be granted on an application of the same bank to grant a loan to an eligible client for an eligible project. The decision to extend a sub-loan will be made by the bank based on analysis of clients' creditworthiness and projects' viability, performed by relevant credit unit and risk analysis unit.

The initial evaluation shall ensure that each application meets the conformity/eligibility criteria: only proposals which satisfy all these criteria can advance for further assessment. Likewise, an applicant whose application lacks requested supporting documents will be advised that the deficiency must be rectified properly.

A site visit will be made by the Bank Loan Officers or Bank assessors, in order to deepen the understanding of the enterprises, clarify issues and serve to settle any outstanding queries. Field visits and the assessment procedure shall serve to determine the actual consistency, for each application, of the needs priority criteria which contain the main objectives pursued by the project.

Ministry of Finance, assisted by PMU, will check each Palestinian Private Bank submitted application to verify if the internal evaluation procedures are in compliance with the program related Operational Manual, as agreed for the Program, and with principles of sound banking. In case of doubts Ministry of Finance can ask a preliminary special consulting service to the selected Auditing Firm, PricewaterhouseCoopers, (i.e. price alignment verification, soundness of the project, etc).

The CLSC will provide the final decision regarding the loan application, whereas this decision will be communicated to the Bank through the PMU, which in their turn will inform the SMEs.

Once the loan has been approved by the bank and the CLSC, the collateral duly registered and the bank Subsidiary Loan Agreement signed between the beneficiary (client) and the bank, a Project



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Loan Agreement will be signed by Ministry of Finance and bank to authorize the bank to withdraw the Project amount from the Special Fund.

7. Application Forms and Documents:

Application to this program will be through participating Palestinian Private Banks, using their current application forms.

The following minimum information should be provided in respect of each application:

- Profit and Loss accounts for the previous 3 years.
- Balance Sheets for the previous 3 years.
- Employee numbers for the previous 3 years.
- Details of bank loans including name of bank, maturity, and repayments to date of principal and interest.
- Details of guarantees/collateral available.
- Business Plan and Financial forecasts including a Cash Flow forecast based on the loan approval for the present year and two full calendar years in the future.
- Forecast of employee numbers at the end of 2 years.
- Registration certificates and documents.
- Other pertinent information requested by banks and/or Credit Line Steering Committee.

8. SME eligibility criteria:

Each Enterprise should match the following set of criteria:

- (1) It should have at least 65 percent of private equity.
- (2) It should have at least 40 percent of private Palestinian equity.
- (3) It must be registered with tax authorities.
- (4) It should be active in manufacturing, food production or agro-processing, or in related services.
- (5) It will be required to demonstrate that it is creditworthy and has prior operating experience in the activity to be financed, preferably of at least two years.
- (6) Its financials must show a ratio of debt to equity of not more than 3:1 (defined as total debt inclusive of the loan divided by existing equity).



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- (7) Its financials must show minimum debt service coverage ratio of 1.25 (defined as cash earnings after all operating expenses before interest and principal due divided by principal and interest payments).
- (8) It should have sufficient working capital, including sub-loan proceeds, to meet all existing and forecast obligations.
- (9) Enterprises with owners/shareholders, directors, or managers who have criminal records or who have been indicted for any felony will not be eligible (apart from political detention) .
- (10) Borrowers should be able and ready to provide enough collateral to support the PPB sub-loan;
- (11) Borrowers should be ready to finance up to 25% of the project with their own capital.
- (12) The production activity of the enterprise must not harm the environment or deplete the natural resources.
- (13) The enterprise must not make use, directly or indirectly, of child labour.
- (14) The operation of the enterprise must not have any direct or indirect connection with military activities or weapons (including sporting fire arms, defence systems, military installations, military equipment and materials).

9. Project eligibility criteria:

Each project should meet this minimum set of criteria:

- (1) Each sub-loan could be used to finance investments, refurbishment or modernization, and/or pro-quota incremental permanent working capital.
- (2) Each sub-loan could be used for equipment and raw materials, repair of facilities and minor construction (not to exceed 30% of its total amount).
- (3) Each sub-project application should be accompanied by a business plan, a balance sheet and an income statement, and cash-flow projections.
- (4) Sub-projects would be required to have an expected financial rate of return of at least 15 percent (FIRR).
- (5) Sub-projects would be required to meet current environmental guidelines.
- (6) A maximum of 30% of the required financing may be utilized to cover local cost and/or imports of goods of non –Italian origin to be financed only through contract with Italian suppliers. Supply contract shall be denominated in Euro.



10. Suggested outline for Business Plan

A. Background - An Introduction To The Project

- Brief history of the project.
- Introduction to the current operations and future plans of the company.
- Description of project sponsors.
- Underlying rationale, the market opportunity.
- Outline of the proposal, i.e. why the funds are needed.
- How the proposal has come to the Bank.
- Details of the amount and uses of the funds.

B. The Business - A Description Of The Existing Business

- Type of business and scope of operation.
- History of the company and the business.
- Sources of revenue.
- Technology; relationship with other firms and trademark/license position.
- Location and accessibility.
- Seasonality or cyclical.
- Summary of the production process and capacity.
- Availability and cost of inputs.
- Sales channels.
- Expansion plans.

C. Market Opportunity - What Market Demand Is Fulfilled By The Products/Services (Both Existing And Planned)

- Where is the market?
- Who purchases the output and in what percentages?
- What are the customers' purchase criteria?
- Estimate demand in the target areas, together with relevant comparisons.
- Future trends in the market.
- Market share.
- Unsupplied or suppressed demand - the opportunity to expand.
- Summary of customer interviews.

D. Competition

- Analysis of direct competitors.
- Comparison of Borrower with these competitors.
- Borrower's views of the competition.
- Competitive advantage.
- Potential competitive threats.



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E. Management

- Business description of each partner in the venture.
- Background and qualifications of key management.
- Management succession.

F. Financial Analysis

- Historical analysis of profit and loss and balance sheet statements and ratios for recent years (last 2-3 years).
- Discussion of the major revenue sources and costs, together with account of key influences; the margins that make sense in the business.
- Full account of assumptions used to develop the financial projections.
- Financial projection
 - o Balance Sheets
 - o Profit and Loss
 - o Cash flows.

G. General Issues

Discussion of any significant business or financial issues not already highlighted.

H. Environment

Any local issues that might impact the successful completion, implement and functioning of the project, e.g. closures, curfews, permits, etc

I. Loan Proposed

- Value of loan
- Loan as proportion of total investment
- Terms
- Uses
- Contributions of other parties



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11. Participating Private Palestinian Banks - Contact Information

1. Bank of Palestine PLC

Address: Ein Misbah, Ramallah
P.O. Box 471, Ramallah, Palestine
Tel: +97222965010, Fax: +97222964703
Website: www.bankofpalestine.com
Contact Persons: Mr Hani Naser & Mr
Mohammed Al Khoudary
Mobiles: 0599.522.299 & 0599.491.791
Email: hnaser@bankofpalestine.com &
Mohammed.khoudary@bankofpalestine.com

2. Quds Bank

Address: Quds Banks Building, Quds Street,
Massyoun, Ramallah
P.O. Box 2471, Ramallah, Palestine
Tel: +97222979555, Fax: +97222979955
Website: www.qudsbank.ps
Contact Person: Mr Mohammad Eid & Mr
Albier Habash
Mobiles: 0598.905.860 & 0598.948.299
Emails: mohammed.eid@qudsbank.ps &
Albier.Habash@qudsbank.ps

3. Alrafah Microfinance Bank

Address: Al Masa Building, Al Irsal Street,
Ramallah
P.O. Box 700, Ramallah, Palestine
Tel: +97222978710, Fax: +97222978880
Website: www.alrafahbank.ps
Contact Person: Mr Mohammad Salameh
Mobile: 0598.923.493
Email: msalameh@alrafahbank.ps

4. Palestine Commercial Bank

Address: P.O. Box 1799, Ramallah, Palestine
Tel: +97222979999, Fax: +97222979977
Website: www.pcb.ps
Contact Person: Mr Issa Basha
Mobile: 0599.521.981
Email: issa.basha@pcb.ps



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